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FISCAL IMPACT STATEMENT

LS 6353

BILL NUMBER: HB 1206

NOTE PREPARED: Dec 11, 2012

BILL AMENDED:

SUBJECT: Motor Vehicle Excise Tax Credit.

FIRST AUTHOR: Rep. Truitt

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill allows veterans with qualifying disabilities who do not own certain types of taxable property to claim credits against the motor vehicle excise tax. It allows the surviving spouses of qualified disabled veterans and World War I veterans who do not own those types of taxable property to claim the credits.

The bill specifies that the amount of the credit is the lesser of the claimant's excise tax liability or \$70. It provides that the maximum number of vehicles for which credits may be claimed is two. (Current law allows such veterans to apply any excess property tax deduction amount to the motor vehicle excise tax as a credit, but owning property is a requirement for claiming the property tax deduction and applying its excess to the excise tax.)

Effective Date: July 1, 2013.

Explanation of State Expenditures: The Bureau of Motor Vehicles (BMV) would implement this credit. The bill's requirements are within the BMV's routine administrative functions and the BMV should be able to implement the requirements with no additional appropriations, assuming near customary agency staffing and resource levels.

Explanation of State Revenues: State revenues could be reduced by as much as \$1.4 M per year beginning in FY 2015. Revenues in FY 2014 could be reduced by half that amount.

Motor vehicle excise taxes that are captured by the state are deposited into the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary:* Local revenue from the motor vehicle excise tax could be reduced by as much as \$2.9 M per year beginning in CY 2014. Local excise tax revenues are distributed to local civil taxing units and school corporations.

Background: Under current law, certain disabled veterans or their surviving spouses are eligible for a property tax deduction against any real or personal property that they may own. There are two disabled veteran deductions.

Service-Connected Disability: Veterans with wartime service and a service-connected disability of at least 10% or their surviving spouses are entitled to a property tax deduction of \$24,960 on their real or personal property. There is no qualification on assessed value (AV).

Non-service-Connected Disability: Veterans or their surviving spouses are entitled to a property tax deduction of \$12,480 on their real or personal property if the veteran is either totally disabled or is at least age 62 with a disability of 10% or more. The disability need not be service-connected, nor does the service need to be wartime service. In order to qualify, the AV of the property must not exceed \$143,160.

Veterans who qualify may receive both disabled veteran deductions. Properties that are co-owned by more than one disabled veteran are subject to multiple deductions.

Surviving spouses of WWI veterans are eligible for a property tax deduction of \$18,720 on their real or personal property. There is no qualification on AV.

An individual who is entitled to any of the above property tax deductions may receive a credit against the motor vehicle excise tax for any part of a property tax deduction that was not used against real or personal property. The credit is equal to \$2 per \$100 of unused deduction. So, for example, if a veteran or surviving spouse who qualified for the \$24,960 deduction used only \$20,960 against property taxes, the individual could receive an excise tax credit of up to \$80 $[(\$4,000 \text{ remainder}/\$100) * \$2.00]$.

In the past, some individuals may have claimed the excise tax credit without owning any real or personal property that qualified for the property tax deduction. The total number of these claims and the amount of these credits cannot be quantified. Excise tax credits are no longer being granted if the disabled veteran does not possess real or personal property that qualifies for the property tax deduction.

Beginning July 1, 2013, this bill would grant excise tax credits to disabled veterans and surviving spouses who do not own qualifying property if they meet all other qualifications. The credit would be limited to \$70 each on up to two vehicles.

Analysis:

Service-Connected Disability: According to the Indiana Department of Veterans Affairs, 61,500 veterans currently receive compensation from the VA for service-connected disabilities. After allowing for the 39,850 veterans that currently receive the service-connected property tax deduction, there are potentially 21,650 additional veterans in this group who could qualify for the credit under this bill.

Nonservice-Connected Disability: If it is assumed that 5% of Indiana's veteran population has a nonservice-connected disability, there could be 21,500 nonservice-connected disabled veterans. (This estimate is based on a total veteran population of 491,000, less the 61,500 veterans known to have service-connected disabilities). The percentage disability of these veterans is not known and not all would qualify for the credit. After allowing for the 12,500 veterans receiving the nonservice-connected property tax deduction, there are potentially 9,000 additional veterans in this group who could qualify for the credit under this bill.

There are many unknowns, including (1) the actual number of nonservice-connected disabled veterans, (2) the percentage disability for these veterans, (3) the number of surviving spouses that would qualify, (4) the percentage of the disabled veterans who own vehicles subject to the excise tax, and (5) the amount of excise tax currently paid on those vehicles. Some of these factors may add to the impact estimate, while others would reduce the estimate.

If 30,650 disabled veterans qualified under this bill for excise tax credits at a maximum of \$70 for each of two vehicles, the maximum cost of the credit would be about \$4.3 M per year.

These credits would reduce excise tax collections. About two-thirds of the revenue reduction would impact local government units and school corporations, while one-third would impact the state.

Additional Information: In CY 2011, the BMV collected \$384.5 M in motor vehicle excise tax. An additional \$236.4 M in excise tax replacement came from the state Lottery and Gaming Surplus Account and the state General Fund. Total excise tax revenues (plus replacement) were \$621.2 M.

Without LaPorte County, the state captured \$204.4 M of the \$621.2 M as part of the property tax reform that took effect in 2009. The remainder, \$406.1 M (not including LaPorte County), was sent to the counties for distribution to local taxing units. So, about two-thirds of excise tax collections are sent to local units while one-third is retained by the state.

The \$384.5 M in excise taxes were paid by 5.5 million registrants. The average excise tax paid was \$70.

State Agencies Affected: Bureau of Motor Vehicles.

Local Agencies Affected: Local civil taxing units and school corporations.

Information Sources: Elizabeth Murphy, Bureau of Motor Vehicles, Tom Applegate, Indiana Department of Veteran Affairs; LSA parcel-level property tax database.

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